



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

The reputation promise of the Auditor-General

"The Auditor-General has a constitutional mandate and, as the Supreme Audit Institution (SAI) of South Africa, it exists to strengthen our country's democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence."

The mission statement informs the content of the Public Audit Manual (PAM) by recognising that the audits conducted by the SAI of South Africa are unique due to its mandate. This mandate includes responsibilities in terms of laws or regulations that go beyond generally accepted practice of the auditor's responsibilities in the audit of the financial statements.

These responsibilities include: consideration of issues such as public interest; accountability; probity; effective legislative oversight, in particular as concerns compliance with law, regulation or other authority; performance against pre-determined objectives; and economic, efficient, and effective procurement of resources.

The ultimate goal of the audits is to strengthen the South African democracy.

**Auditor's report of the Auditor-General to
the Gauteng Provincial Legislature on the
Midvaal Local Municipality for the year
ended 30 June 2011**



AUDITOR-GENERAL
SOUTH AFRICA

Mr ASA De Klerk
Accounting Officer
Midvaal Local Municipality
P O Box 9
Meyerton
1060

30 November 2011

Reference: TS98 19611

Dear Mr De Klerk

Report of the Auditor-General on the financial statements and other legal and regulatory requirements of Midvaal Local Municipality for the year ended 30 June 2011

1. The above-mentioned report of the Auditor-General is submitted herewith in terms of section 21(1) of the Public Audit Act of South Africa read in conjunction with section 188 of the Constitution of the Republic of South Africa section 121(3) of the Municipal Finance Management Act of South Africa (MFMA).
2. We have not yet received the other information that will be included in the annual report with the audited financial statements and have thus not been able to establish whether there are any inconsistencies between this information and the audited financial statements and the reported performance against pre-determined objectives. You are requested to supply this information as soon as possible. Once this information is received it will be read and should any inconsistencies be identified these will be communicated to you and you will be requested to make the necessary corrections. Should the corrections not be made we will amend and reissue the audit report.
3. In terms of section 121(3) of the MFMA; you are required to include the audit report in the municipal entity's annual report to be tabled.
4. Until the annual report is tabled as required by section 127(2) of the MFMA municipal entity the audit report is not a public document and should therefore be treated as confidential.
5. Prior to printing or copying the annual report which will include the audit report you are required to do the following:
 - Submit the final printer's proof of the annual report to the relevant senior manager of the Auditor-General of South Africa for verification of the audit-related references in the audit report and for confirmation that the financial statements and other information are those documents that have been read and audited. Special care should be taken with the page references in your report, since an incorrect reference could have audit implications.

- The signature *Auditor-General* in the handwriting of the auditor authorised to sign the audit report at the end of the hard copy of the audit report should be scanned in when preparing to print the report. This signature, as well as the place and date of signing and the Auditor-General of South Africa's logo, should appear at the end of the report, as in the hard copy that is provided to you. The official logo will be made available to you in electronic format if needed.

6. Please notify the undersigned Senior Manager well in advance of the date on which the annual report containing this audit report will be tabled.
7. Please submit 5 copies of the annual report to the AGSA (Attention Ockie Ludick) at 61 Central Street, Houghton.
8. The tabled report must be submitted to MPAC.
9. Your cooperation to ensure that all these requirements are met would be much appreciated.

Kindly acknowledge receipt of this letter.

Yours sincerely

Signed



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Senior Manager: Gauteng

Enquiries: Ockie Ludick
Telephone: (011) 703 7638
Fax: (011) 703 7690

REPORT OF THE AUDITOR-GENERAL TO THE GAUTENG PROVINCIAL LEGISLATURE AND THE COUNCIL OF THE MIDVAAL LOCAL MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Midvaal Local Municipality, which comprise the statement of financial position as at 30 June 2011, and the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information, as set out on pages X to X

Accounting Officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No.56 of 2003) (MFMA), and for such internal control as management determines necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996), section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), section 126(3) of the Municipal Finance Management Act of South Africa, 2003 (Act No.56 of 2003), my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with International Standards on Auditing and General Notice 1111 of 2010 issued in Government Gazette 33872 of 15 December 2010. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Midvaal Local Municipality as at 30 June 2011, and its financial performance and cash flows for the year then ended in accordance with the South African Standards of Generally Recognised Accounting Practice and the requirements of the MFMA.

Emphasis of matters

7. I draw attention to the matters below. My opinion is not modified in respect of these matters:

Significant uncertainties

8. With reference to note 31 to the financial statements, the municipality is a defendant in a number of lawsuits. The ultimate outcome of these matters cannot presently be determined, and no provision for any liability that may result has been made in the financial statements.

Fruitless and wasteful expenditure

9. The municipality incurred fruitless and wasteful expenditure of R36 975 due to interest and penalties arising from late payment of supplier invoices.

Material losses

10. As disclosed in note 24 to the financial statements, material losses to the amount of R12 430 808 and R3 113 860 were incurred as a result of electricity and water losses respectively.

Material impairments

11. As disclosed in note 10 to the financial statements, material losses to the amount of R12 537 267 were incurred as a result of a write-off of irrecoverable trade debtors.

Additional matters

I draw attention to the matter below. My opinion is not modified in respect of this matter:

Unaudited supplementary schedules

12. The supplementary information set out on pages X to X do not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

13. In accordance with the PAA and in terms of *General notice 1111 of 2010*, issued in *Government Gazette 33872 of 15 December 2010*, I include below my findings on the annual performance report as set out on pages X to X and material non-compliance with laws and regulations applicable to the Midvaal Local Municipality.

Predetermined objectives

Usefulness of information

14. The reported performance information was deficient in respect of the following criteria:

- Consistency: The reported objectives, indicators and targets are consistent with the approved integrated development plan.
The following audit finding relate to the above criteria:
- Reported performance against predetermined objectives, indicators and targets is not consistent with the approved integrated development plan.

Compliance with laws and regulations

Annual financial statements, performance and annual reports

15. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of cash flow, property plant and equipment, provisions, trade payables, revenue, expenditure and other disclosure items identified by the auditors were subsequently corrected.

Strategic planning and performance management

16. The integrated development plan did not include the key performance indicators and performance targets determined in accordance to its performance management system, as required by sections 26(i) and 41(1) (b) of the MSA and regulation 12 of the Municipal Planning and Performance Management Regulations, 2001.

Expenditure management

17. Money owing by the municipality was not always paid within 30 days of receiving an invoice or statement, as required by section 65(2)(e) of the MFMA.

Human resource management and compensation

18. The employees worked overtime in excess of the maximum hours stipulated in the Basic Conditions of Employment Act, 1997 (Act No 75 of Act of 1997) (BCEA).

Procurement and contract management

19. Awards were made to suppliers who did not submit a declaration on their employment by the state or their relationship to a person employed by the state as per the requirements of Municipal SCM regulation 13(c).
20. Awards were made to providers who are persons in service of other state institutions in contravention of the requirements of SCM regulations 44. Furthermore the provider failed to declare that he is in the service of the state as required by SCM regulation 13(c)
21. Goods and services with a transaction value of between R30 000 and R200 000 were procured without obtaining written price quotations from at least three different prospective providers as per the requirements of SCM regulation 17(a) & (c).

INTERNAL CONTROL

22. In accordance with the PAA and in terms of General notice 1111 of 2010, issued in Government Gazette 33872 of 15 December 2010, I considered internal control relevant to my audit, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported below are limited to the significant deficiencies that resulted in the basis for unqualified opinion, the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

Leadership

- There was inadequate oversight responsibility regarding financial and performance reporting and compliance and related internal controls as material amendments were made to the financial statements submitted for audit.
- There was inadequate monitoring of progress of implementation of action plans to address internal control deficiencies as some current year audit findings arose as a result of control deficiencies.

Financial and performance management

- There was inadequate implementation of proper record keeping controls, in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting. This resulted in certain instances where financial and performance reports were not supported and evidenced by reliable information.
- There was inadequate review and monitoring of compliance with applicable laws and regulations as there were instances of non-compliance with applicable laws and regulations as noted in this report.

Governance

- No matters to report.

Investigations in progress

23. There is an investigation being conducted into the procurement process at the municipality and which is still ongoing at reporting date.

Auditor General

Johannesburg
30 November 2011



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